



A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

Procedural Review

# **Valentine Elementary School District No. 22**

As of February 2, 2006



**Debra K. Davenport**  
Auditor General

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AUDITOR GENERAL

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**AUDITOR GENERAL**

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April 5, 2006

Governing Board  
Valentine Elementary School District No. 22  
HC 35, Box 50  
Peach Springs, AZ 86434-9650

Members of the Board:

We performed a procedural review of the internal controls of Valentine Elementary School District No. 22 as of February 2, 2006. The purpose of a procedural review is to determine whether a district is in substantial compliance with the *Uniform System of Financial Records for Arizona School Districts* (USFR). Our review consisted primarily of inquiries, observations, and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

In our opinion, based on our procedural review, the District has complied with the USFR. However, we must emphasize that we found a number of deficiencies in the District's internal controls. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls and to continue to comply with the USFR. We have communicated specific details for all deficiencies to management for correction.

Thank you for the assistance and cooperation that your administrators and staff provided during our procedural review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Magdalene D. Haggerty, CPA  
Accounting Services Director

# TABLE OF CONTENTS



Introduction	1
Recommendation 1: The District should ensure the accuracy of its student attendance records	2
Recommendation 2: The District's controls over expenditures should be improved	2
Recommendation 3: The District's accounting records should be accurate and supported by documentation	3

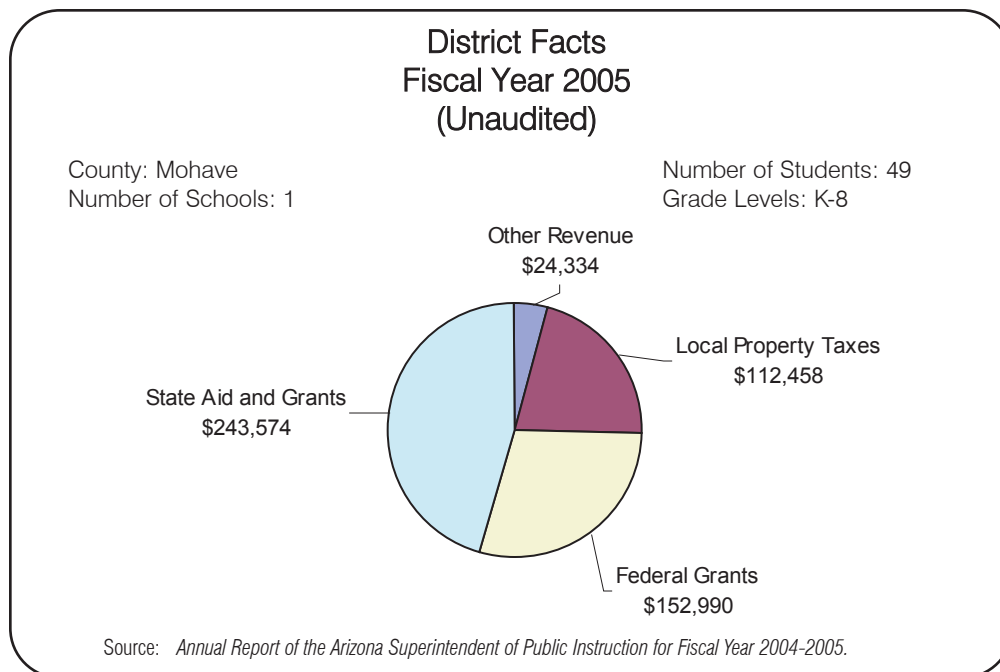


# INTRODUCTION

Valentine Elementary School District No. 22 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$500,000 it received in fiscal year 2005 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our procedural review, we determined that the District complied with the USFR. However, we noted certain deficiencies in controls that the District's management should correct to ensure that it continues to fulfill its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



## The District should ensure the accuracy of its student attendance records

Districts receive funding from the State of Arizona and local property taxes based on student attendance. In turn, the State requires school districts to maintain accurate attendance records to help ensure that the District receives the appropriate amount

of state aid and local property taxes. However, the District's membership and absence records did not agree to ADE's reports. In addition, entry dates were not always recorded on student entry

The District may not have received the appropriate amount of funding since the District did not report membership and absences correctly.

forms, and withdrawal dates were not always properly reported to ADE. Further, the District did not properly calculate partial-day attendance and did not ensure that teacher registers were properly maintained to support membership and absences reported to ADE.

## Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should record and report membership and absences in accordance with ADE's *Instructions for Required Reports*. A second employee should verify that membership and absences reported to ADE are calculated accurately and agree with the District's attendance records. A second employee should also verify that withdrawal dates are properly reported to ADE. In addition, student entry forms should include entry dates, and teacher registers should include membership and absence totals.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

## The District's controls over expenditures should be improved

The District spends public monies to purchase goods and services. Therefore, it is essential that the District follows procedures designed to help ensure that its purchases are approved before committing district monies and that its expenditures are properly supported. However, the District did not follow such procedures. Specifically, the District did not always prepare and approve purchase orders before ordering goods and services. In addition, receiving reports were not always prepared, vendor invoices were not checked for mathematical accuracy, and supporting documentation was not properly canceled. Further, the District did not document its comparison of warrants to supporting documentation before

distributing them to vendors. Finally, the Governing Board did not determine and document that there was only one source for gasoline purchases.

## Recommendations

To strengthen controls over expenditures, the District should establish and follow the policies and procedures listed below:

- Prepare purchase orders that are approved by an authorized employee before ordering goods and services.
- Prepare receiving reports for all goods and services received, except exempted items. The date of the receipt, quantity received, and signature of the recipient should be noted on the receiving report.
- Check vendor invoices for mathematical accuracy to ensure accurate payments, and document that the check was performed on the invoice.
- Cancel invoices and other supporting documents by stamping them paid and recording voucher and warrant numbers on the invoice to prevent duplicate payments.
- Verify that warrants received from the County School Superintendent agree with warrant registers before distributing them to vendors.
- Prepare and retain written documentation of the Governing Board's determination that there was only one vendor that can provide the required item or service for sole source purchases.

USFR pages VI-G-2 through 5 describe expenditure processing procedures.

## The District's accounting records should be accurate and supported by documentation

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records are accurate and properly supported, and that transactions are properly recorded and authorized. However, the District did not fully accomplish this objective. Specifically, the District did not always classify expenditures in accordance with the USFR Chart of Accounts and did not ensure that journal entries were properly approved and supported.

The District did not always properly classify expenditures in its accounting records.



Further, the District's capital assets documentation was not complete. Specifically, the capital assets list did not include all required information and did not include all district assets. In addition, the District did not always retain cost documentation for all assets recorded on the list.

## Recommendations

The following procedures can help the District record and report accurate accounting information:

- Classify all transactions in accordance with the USFR Chart of Accounts.
- Prepare and retain explanations, attachments, or references to documentary evidence to support all journal entries, and ensure that the signature or initials of the employees making and authorizing the entry are documented.
- Prepare and maintain a current and complete capital assets list that includes all equipment, land, buildings, and related improvements with costs of \$5,000 or more.
- Ensure that all required information is included on the capital assets list.
- Retain supporting documentation, such as purchase orders, receiving reports, and vendor invoices, to support information recorded on the capital assets list.

USFR §VI-E provides guidance for accounting for capital assets.